

What Is A Corporation?

A corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it.

A corporation can be taxed; it can be sued; it can enter into contractual agreements. A corporation can open a bank account, own property and do business, all under its own name.

The owners of a corporation are its shareholders.

The shareholders elect a board of directors to oversee the major policies and decisions and oversee the general affairs of the corporation. Think of the directors like representatives in Congress. They represent shareholders. The directors are elected by the stockholders of the corporation. Corporate officers, such as the Chief Executive Officer, who run the day-to-day operations of the corporation, are appointed by the directors.

The corporation has a life of its own and does not dissolve when ownership changes.

The primary advantage of a corporation is that its owners, known as stockholders or shareholders, are not personally liable for the debts and liabilities of the corporation. For example, if a corporation gets sued and is forced into bankruptcy, the owners will not be required to pay the debt with their own money. If the assets of the corporation are not enough to cover the debts, the creditors cannot go after the stockholders, directors or officers of the corporation to recover any shortfall.

Other advantages include:

1. Generally, shareholders can only be held accountable for their investment in stock of the company. However, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.
2. Corporations can raise additional funds through the sale of stock.
3. A corporation may deduct the cost of benefits it provides to officers and employees.
4. Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership

The major disadvantage of this form of organization is double taxation. A traditional corporation, known as a "C-corporation," pays a corporate tax on its corporate income (the first tax). Then, when the C-corporation distributes profits to its stockholders, the stockholders pay income tax on those dividends (the second tax).

What Is A Corporation?

The other main drawback is that the process of incorporation requires more time and money than other forms of organization. Also, corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.

Federal tax forms needed by sole proprietors include:

1. Corporation Income Tax Return - form 1120 or 1120-A
2. Estimated Tax for Corporation - form 1120-W
3. Deposit Coupon - form 8109-B
4. Depreciation - form 4625
5. Employment Tax Forms - 940, 941, others
6. Other forms as needed for capital gains, sale of assets, alternative minimum tax, etc.

This article is intended to be used as an introduction and a guideline. Seek professional assistance before making a decision about how to structure your small business.